

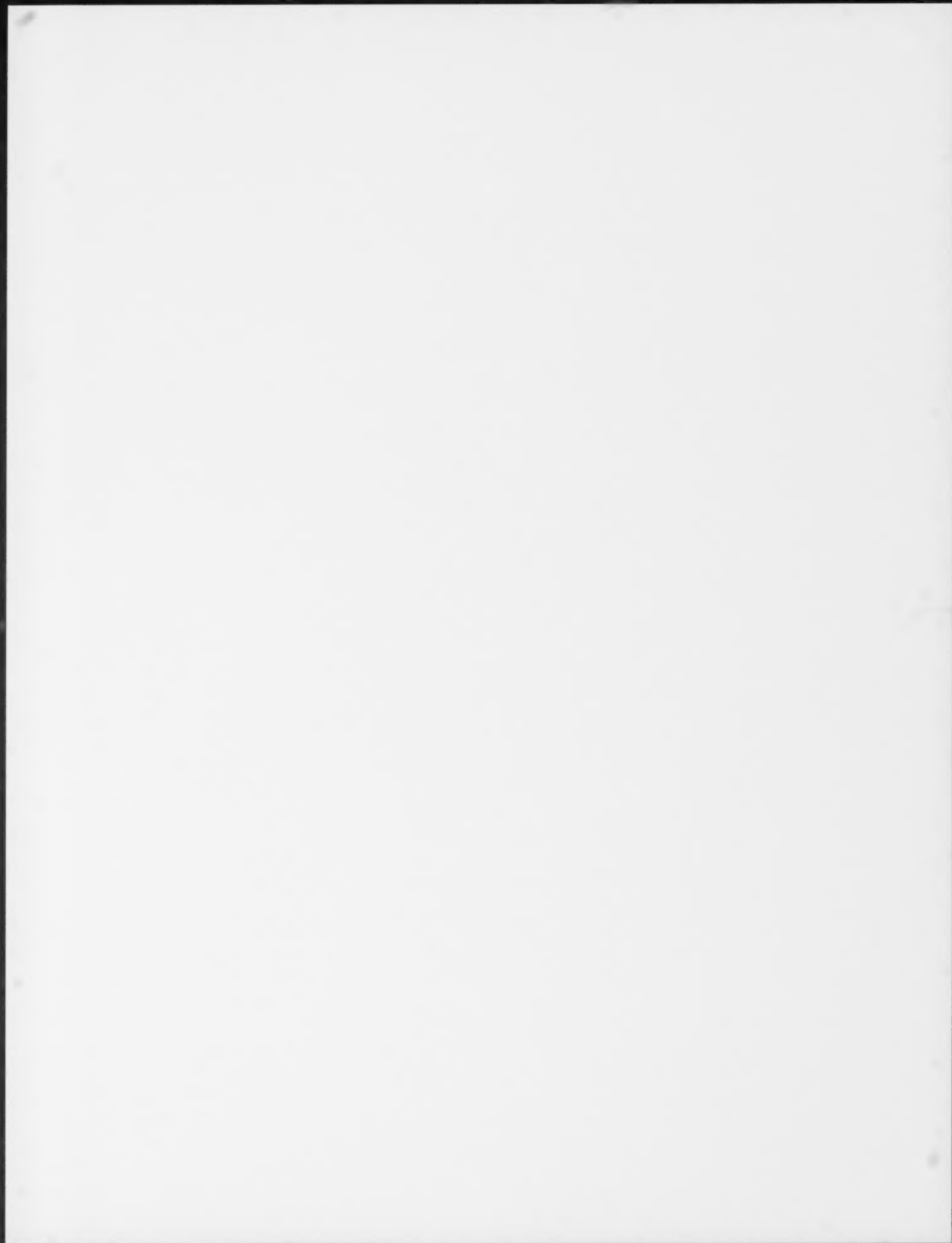


table of contents

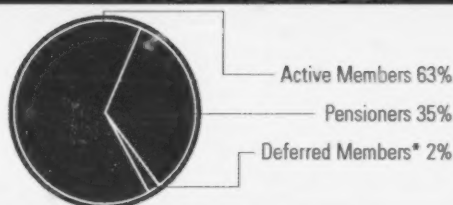
highlights	1
2008 special forces pension board	2
message from the board	2
management of the SFPP	5
administration report	6
investment report	9
financial statements	20
10-year plan summary	51
2009 directory	55
contact information	55
SFPP employers	55

highlights

Net Assets vs. Pension Liabilities
(\$ millions)
(as at December 31, 2008)

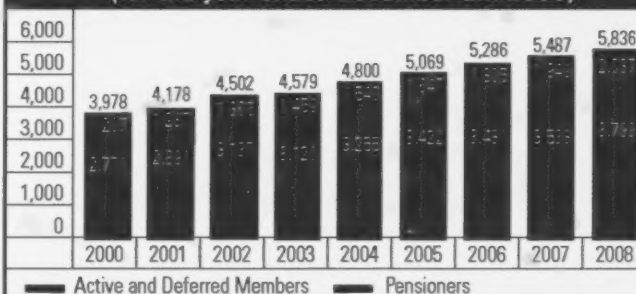


Membership Profile
(as at December 31, 2008)

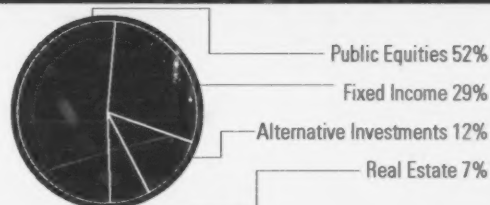


* Members who are no longer employed by a Plan employer, have left contributions in the Plan and have yet to choose a pension option.

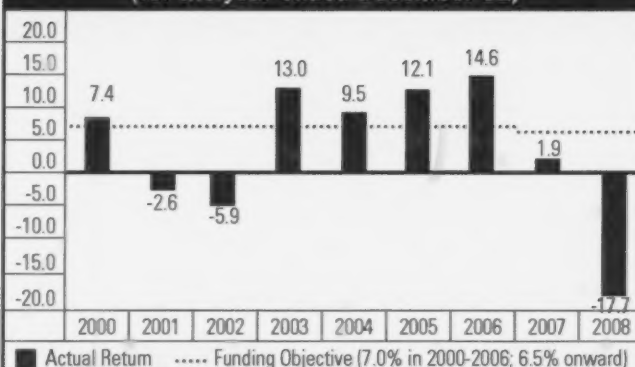
Total Members and Pensioners
(for the year ended December 31, 2008)



2008 Asset Mix Policy



Rates of Return (%)
(for the year ended December 31)

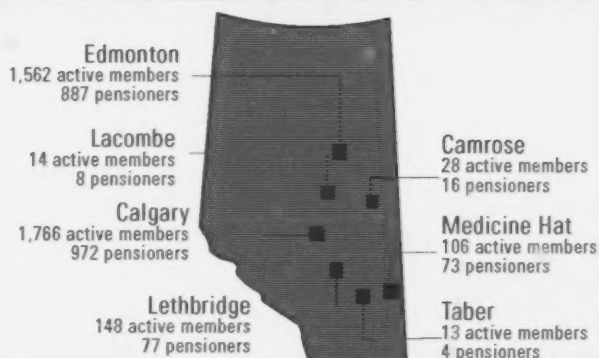


Summary of Net Assets Available for Benefits and Accrued Benefits
(as at December 31, 2008)

	2008	2007
	(\$ thousands)	
Net Assets Available for Benefits	1,203,004	1,478,536
Actuarial Value of Accrued Benefits		
Plan Fund	1,618,104	1,543,522
Indexing Fund	14,866	13,665
	1,632,970	1,557,187
Surplus (Deficiency)		
Plan Fund	(429,966)	(78,651)
Indexing Fund*	-	-
	(429,966)	(78,651)

* Cost of Living Adjustment (COLA) has been granted for pensionable service up to December 31, 2000. Please see www.sfp.ca for more details.

SFPP Members and Pensioners by Location*



* Does not include members retaining active plan status who are not currently active with any employer.

2008 special forces pension board



Back row (left to right)

Roger Rosychuk (Employer Nominee), City of Edmonton; Ronald Ternes (Employee Nominee), Calgary Police Association; Dwayne Smith (Employee Nominee), Lethbridge Regional Police Association; Alex Fowlie (Crown Nominee); David Watson (Employer Nominee), City of Calgary

Front row (left to right)

Liz Doughty (Plan Board Manager), APA Corporation; Denis Jubinville (Employee Nominee/Chair), Edmonton Police Association; Garth Sherwin (Employer Nominee/Vice-Chair), City of Lethbridge

message from the board

The economic turmoil and equity market volatility in 2008 took its toll on investors around the world and, although well-diversified, the Special Forces Pension Plan (SFPP) was not immune to this volatility. The fund suffered an investment loss of 17.7% for the year. In reviewing the events of 2008, it is important to note that:

- 1) Pension payments and benefits earned to date under the Plan are primarily defined in the Plan rules. With the exception of cost-of-living adjustments on post-1991 service, the funded status of the Plan does not directly impact plan members' earned benefits or pension benefits being paid.
- 2) There is a strong possibility that contribution rates will rise in the future to help mitigate the impact of the significant decrease in investment markets. The Special Forces Pension Board (SFP Board) will closely monitor the funding of the Plan and will conduct a full actuarial valuation as of December 31, 2008. Results of this funding valuation will be available the latter part of 2009. Although the SFP Board would prefer to keep contribution rates steady, the best levers to ensure the appropriate funding towards the Plan are investment returns and contribution rate adjustments. At present, the total combined contribution rate requirement by Plan members, employers and the Government of Alberta to the SFPP remains at 22.37% of pensionable salary (members at 10.01%, employers at 11.11%, and Government at 1.25% towards the pre-1992 unfunded liability). These rates have been in place since 2003.

- 3) The Plan is committed to a long-term investment horizon. To fund the Plan on a reasonable basis has required the acceptance of short-term volatility associated with public equity markets. This was based on the analysis of long-term market trends and averages. As markets revert back toward their long-term averages, the funded status of the Plan should improve accordingly.

investment strategy

While equity markets have recently been taxing to the Plan, the real challenge faced by the Plan over the last 10 years has been the decline in long bond yields. A key assumption used in funding a pension plan is the interest rate assumption, which is used to calculate contributions earned and the Plan's liabilities. At the end of 1999, long bonds were yielding 6.3% and the required rate of return used by the actuary to fund the Plan was 7.5%. By the end of 2005, the long bond yield declined to 4.0% and, at the end of 2008, it went down to 3.5%. The actuary has brought the Plan's required rate of return down to 6.5% to partially reflect the decline in long bond yields.

The SFP Board is working with Alberta Investment Management Corporation (AIMCo), the newly established investment corporation of the Province, to develop a more dynamic investment program and to broaden the scope of investment activities to take advantage of the Plan's position as a long-term investor and AIMCo's ability to respond to short-term market fluctuations.

Average Annualized Rates of Return (ending December 31, 2008)				
Actual Returns	1 year	2 years	4 years	8 years
	(17.7%)	(8.4%)	1.9%	2.6%

cost-of-living adjustment (COLA)

COLA is an increase to the basic pension paid after retirement to help protect the pension income from the eroding effects of inflation. The SFP provides a guaranteed annual COLA equal to 60% of the Alberta Consumer Price Index (ACPI) on pensionable service before 1992. COLA on pensionable service after 1991 is ad hoc, and is granted as sufficient funds accumulate in the Indexing Fund.

Total contributions to the Indexing Fund are 1.5% of salary, shared equally by employees and employers. This fund can also receive any post-1992 surplus. Based on this funding model, the SFP Board has been able to grant COLA at 60% of ACPI for all pensionable service up to December 31, 2000.

The SFP Board will be communicating with Plan stakeholders regarding possible funding alternatives, as the current funding is not sufficient to provide COLA of 60% of ACPI for service years 2001 to 2008. The SFP Board is also looking at whether the current approach to granting COLA for a particular year of post-1991 service is the best approach. More information will be provided to stakeholders in 2009.

plan rule changes

The SFP Board recommended the following Plan rule changes, to be effective July 2009, to the Minister of Finance and Enterprise (the Minister):

- option to waive the spousal pre-retirement survivor benefit;
- update small amount commutation rules to permit testing when an application for benefits is made instead of the date of termination or death;
- commute vested benefits for members who terminate from the Plan and become non-residents of Canada; and
- adopt the Employment Pension Plans Act (EPPA) definition of pension partner (removing long separated spouse from the definition).

plan governance

The SFP Board continues to look for opportunities to strengthen SFPP governance. In 2008, a key activity in support of this goal was our work with Alberta Finance and Enterprise, and Alberta Pensions Administration Corporation (APA), our Plan administrator, on clarifying the roles and responsibilities of the SFP Board, APA and the Crown, as represented by the Minister. Clarification of roles and responsibilities were achieved and is set out in the Operating Protocol between the three parties.

The SFP Board also conducted its self-assessment survey, which it undertakes on an annual basis. The results are used to measure and strengthen the SFP Board's governance processes and identify opportunities to improve Board operations and procedures.

board communication

Improving communications remains a priority for the SFP Board. In 2008, the SFP Board published and distributed the *2007 SFPP Highlights* brochure, which summarizes the SFP Board activities, SFPP Fund investment results, administration operations and financial statements for 2007. In addition, the full *2007 SFPP Annual Report* was distributed electronically, with printed copies available on request. Both publications were posted to the SFPP website.

looking ahead

In 2009, the SFP Board will initiate preliminary work with AIMCo and an independent investment consultant on an Asset Liability (AL) Study. The last AL Study took place in 2004, and the SFP Board feels that it is now prudent to conduct another review. The AL Study will be used to further enhance the long-term asset allocation policy, as defined in the *Statement of Investment Policies and Goals*. The objective is to determine a risk/return model that would best suit the Plan's funding needs and establish a balance of opportunity and safety. The long-term policy remains unchanged unless the liabilities, objectives, risk tolerance or market prospects change noticeably. Mathematical models are used extensively as part of the AL Study and are reviewed before the SFP Board sets the asset allocation policy.

The need to consider benefit security makes it essential to also consider the liabilities of the Plan. Therefore, two systems are modeled: the assets and liabilities. The models provide insights for the SFP Board to direct a future investment policy. The process involves a multistage dialogue, with the investment objective of seeking an acceptable level of expected return at an acceptable level of investment risk. The AL Study is part of the SFP Board's risk management focus, which is an important component of the SFP Board's workplan.

We will continue to look into the feasibility of adjusting member and employer contribution rates to help keep the Plan stable, with a focus on investment strategies and managing pension risk.

In addition to the results of the actuarial valuation, stakeholders will also be consulted regarding any proposed changes the SFP Board is considering for post-1991 COLA in the latter part of 2009.

acknowledgements

The SFP Board would like to thank Alex Fowlie, former SFPP Crown Nominee, for his service to the SFP Board, and welcome Aaron Brown, our new Board member.

We would also like to acknowledge the staff of AIMCo and APA for investment management and administration services provided on behalf of the SFPP in 2008, and our external investment advisor, Laurence Waring. Finally, we would like to thank Liz Doughty, Plan Board Manager, for her support of the day-to-day operation of the SFP Board.

Original signed by

Denis Jubinville
Chair, 2008
Special Forces Pension Board

management of the SFPP

The rules governing the SFPP are found in the *Public Sector Pension Plans Act and Regulations*. The Minister of Alberta Finance and Enterprise (the Minister) holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

The SFP Board has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The SFP Board is charged with a number of legislated responsibilities, including: arranging actuarial valuations, recommending plan rule changes, setting contribution rates based on the actuary's recommendations, setting contribution rates to the Indexing Fund for post-1991 Cost-of-Living Adjustments (COLA), providing general guidelines on Plan administration, and setting investment policy for the Plan's assets.

The Minister has delegated the administration of the Plan to Alberta Pensions Administration Corporation (APA), which is a provincial Crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. The Corporation provides services to members, pensioners and employers and is responsible for the day-to-day administration of the SFPP.

AIMCo, a provincial Crown corporation, manages and invests the assets on behalf of the Minister, and the SFP Board.

The Auditor General of Alberta conducts an independent audit of the financial statements of the SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General's office provides a report to the SFP Board identifying any significant findings arising from the audit and other matters they believe should be brought to the SFP Board's attention.

Th SFP Board also seeks expert advice in order to make fully informed decisions. To ensure the appropriate and adequate discharge of its legislated and fiduciary duties, the SFP Board requests its administrator to enter into contracts on its behalf for both actuarial and investment consulting services.



administration report

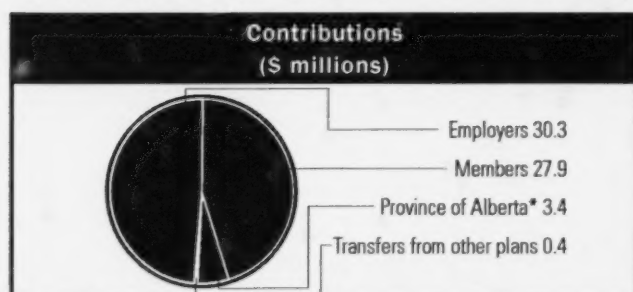
Alberta Pensions Administration Corporation (APA) administers the SFPP under an Administrative Services Agreement with the Minister of Alberta Finance and Enterprise (the Minister). APA's administrative activities include the collection of member data and contributions, calculation and payment of pension benefits, maintenance of membership records, provision of support to the SFP Board, and communication of pension information to members, pensioners and employers.

The 2008 results in these areas are as follows:

Active Membership and Contributions

Active membership in the SFPP increased by 7.8% in 2008, rising to 3,693 at December 31, 2008 from 3,427 at the end of 2007. As a result of increased membership and salaries, total contributions received from employers and employees, the Province of Alberta* and transfers from other plans grew by 12.5% to \$62.0 million in 2008 from \$55.1 million in 2007.

*Relates to additional contributions toward the unfunded liability for service prior to December 31, 1991.



* Relates to additional contributions toward the unfunded liability for service prior to December 31, 1991.

SFPP Membership		
	2008	2007
Active Members	3,693	3,427
Deferred Members	106	111
Pensioners	2,037	1,949
Total	5,836	5,487

Pensioners and Benefit Payments

The number of former employees and their spouses receiving a pension from the SFPP increased by 4.5%, rising to 2,037 in 2008 from 1,949 in 2007. During the year, the total payments of benefits to pensioners rose by 10.4% to \$72.5 million in 2008 from \$65.7 million in 2007.

SFPP Pensioner Profile		
	2008	2007
Number of new pensioners	86	154
Average service (years)	28.25	28.03
Average age	52.41	52.22
Average monthly pension	\$3,867.98	\$3,628.74

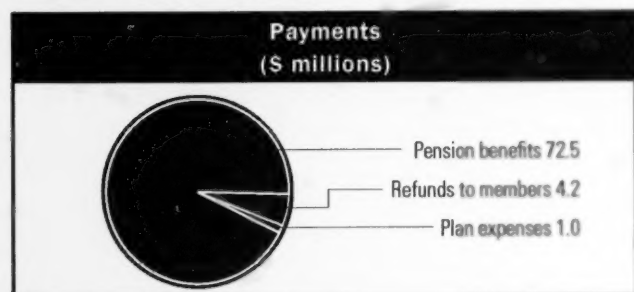
Monthly Payment Distribution As at December 31, 2008			
Dollar Value (\$) Per Month	Member Pensions	Spouse's Pensions	TOTAL
1 to 999	23	1	24
1,000 to 1,999	278	20	298
2,000 to 2,999	681	9	690
3,000 to 3,999	811	-	811
4,000 and over	214	-	214
TOTAL	2,007	30	2,037

Cost-of-Living Adjustment (COLA) to Pensions

The COLA for pensioners who retired before January 1, 2008 is 2.16%. SFPP COLA applies only to service accrued before January 1, 2001. For post-1991 service, the SFP Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund.

Terminated and Deferred Members

Termination benefits amounting to \$4.2 million (2007: \$5.5 million) were paid during the year to or on behalf of former members of SFPP.



Plan Expenses

APA strives to provide services in an efficient and cost-effective manner. SFPP per member costs are based on a cost-sharing formula, which allocates APA's operating costs among the pension plans served according to a formula determined by the Minister.

SFPP's share of APA costs was \$1.0 million (\$180 per member) in 2008, compared to \$0.9 million (\$174 per member) in 2007, based on average membership. This increase is mainly attributed to an increase in the number of APA employees in 2008.

SFPP Expenses (\$ thousands)		
	2008 Actual	2007 Actual
APA Corporate Operating Costs	747	644
Board and Plan-specific Costs	273	290
Total Plan Operating Costs	1,020	934

Plan Communications

SFPP members and employers were provided with a number of tools in 2008 that made it easier for them to understand, manage and access information about their pensions.

SFPP members were provided with annual report highlights and member annual statements, given the opportunity to attend information seminars, and members new to the Plan were sent a Welcome Package including a welcome letter, forms and plan details.

SFPP employers were sent the monthly electronic employer newsletter, *Pension e-news*, which continued to give them up-to-date and easy access to pension information. *Pension e-guide*, the electronic manual for employers, continued to be a source of online support for employers' administrative issues and was upgraded in 2008 with a "What's New" section.

Plan members and other interested persons visited the SFPP website (www.sfpp.ca) in increasing numbers in 2008. Just over 13,000 hits were made on the site in 2008, compared to 10,800 hits in 2007. Members continued to take advantage of the pension estimator function and, through upgrades performed to *mypensionplan* in 2008, were able to quickly and easily sign up and change their address information.

initiatives in 2008

Important changes in 2008 included:

- **Information Products.**

- Updated the Welcome Package for new members, with a new welcome letter promoting the value of the Plan in plain language, enhanced forms and surveys. New members received the enhanced package in late 2008.
- Updated the Pension Options and Pension Estimates Packages for members planning to retire with a new and redesigned cover letter, enhanced forms and surveys and a new checklist. The new packages provide information in plain language and in a way that helps members understand the pension choices available and the implications and benefits of those choices.

- ***mypensionplan* enhancements.** Enhanced the secure *mypensionplan* site, where members can access their personal pension information. It is now easier to sign up to the site, as there is no registration waiting period, and members can also view and change their address information online.
- **Corporate Strategic Planning.** Work continues on the Five-year Strategic Plan, which looks to enable better use of available technology and employee expertise to deliver proactive, responsive and client-focused service to members, pensioners, employers and plan governors now and into the future.

the year ahead

In 2009, APA plans to:

- Perform a thorough review of Member Annual Statements to ensure members are receiving comprehensive information about their pension in a way that is easy to understand and provides valuable and relevant Plan details.
- Continue to improve the *mypensionplan* site, allowing members even more access to view and alter their personal information, including beneficiary details.
- Ensure service levels for members, employers and pensioners meet or exceed expectations.
- Implement a service level agreement with the SFP Board.

Effective January 1, 2009, Alberta Pensions Administration Corporation has changed its name to Alberta Pensions Services Corporation. The name change will be publicly launched later in 2009. Please refer to www.apaco.ab.ca for additional information on APA's activities.

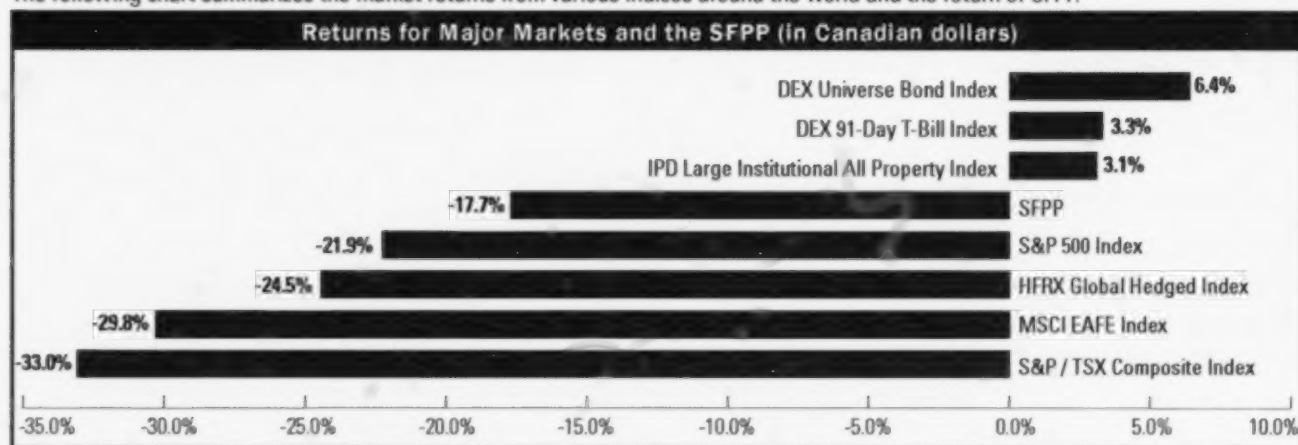
investment report

2008 year in review

Overall, in 2008, the Plan recorded the largest loss in its history. The overall investment loss was 17.7% (or \$260 million) in 2008, net of investment expenses of \$4 million, compared to a gain of 1.9% (or \$28 million) in 2007.

Equity markets were significantly down in 2008, primarily due to continuing global credit crisis, global recession and declining commodity prices. The weaker Canadian dollar in relation to other world currencies had a positive impact on the value of non-Canadian investments when translated into Canadian dollars.

The following chart summarizes the market returns from various indices around the world and the return of SFPP.



The bond market represented by the DEX Universe Bond Index posted a gain of 6.4% in 2008 compared to gains of 3.7% in 2007, 4.1% in 2006 and 6.5% in 2005.

The Canadian real estate market, represented by the IPD Large Institutional All Property Index, increased by 3.1% in 2008, down from 16.0% last year.¹

The Canadian stock market declined significantly in 2008 primarily due to the continuing credit crisis and drop in commodity prices. The Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index decreased by 33.0% in 2008, compared to increases of 9.8% in 2007, 17.3% in 2006, and 24.1% in 2005.

The value of the Plan's non-Canadian investment portfolio is exposed to foreign currency risk. For example, for every one cent change in the U.S. dollar against the Canadian dollar the fair value of the Plan's U.S. equity portfolio, totaling \$220 million, changes by approximately \$2 million. At December 31, 2008, one U.S. dollar purchased \$1.22 Canadian compared to 99 cents Canadian at the beginning of the year. As a result of the weaker Canadian dollar, U.S. dollar investments increased in value over the year when translated into Canadian dollars. In addition, negative investment returns from U.S. equities were softened when translated into Canadian dollars.

Outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE) Index, measures the performance of approximately 1,200 companies on 21 stock exchanges around the world. In Canadian dollars, the Index decreased by 29.8% in 2008 compared to a decrease of 5.7% in 2007 and increases of 26.3% in 2006 and 10.0% in 2005.

The S&P 500 Index, which tracks the performance of the top 500 American companies, decreased by 37.0% in 2008 compared to an increase of 5.5% in U.S. dollars in 2007, 15.8% in 2006 and 4.9% in 2005. When translated into Canadian dollars, the Index lost 21.9% in 2008 compared to a loss of 10.6% in 2007 and gains of 15.7% in 2006 and 1.6% in 2005.

¹ The 2007 Real Estate benchmark return has been updated to include the published IPD Large Institutional All Property Index for the fourth quarter of 2007. In SFPP's published 2007 annual report, the estimated IPD Large Institutional All Property Index policy benchmark return was 16.7%.

statement of investment policies and goals (SIP&G)

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the SFP Board's SIP&G. The SIP&G is reviewed and updated annually by the SFP Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the SFP Board's capital market expectations. It also defines the management structure and monitoring procedures.

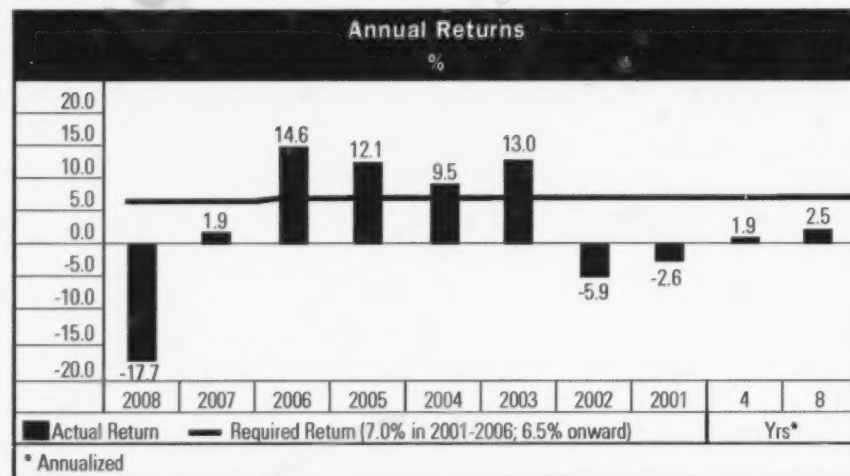
investment management services

Alberta Investment Management Corporation (AIMCo) is a Crown corporation and the investment operation of Alberta Finance and Enterprise. It manages and invests the assets of the Plan on behalf of the Minister and the SFP Board. AIMCo invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies recommended by the SFP Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

long-term investment objective

The required long-term average annual return from the Plan's investments is 6.50%. This includes an expectation of earning 4.25% above the forecast annual rate of inflation currently assumed at 2.25%.

The chart below compares the SFPP's overall investment returns over one year, four years and eight years against the required long-term investment return of 6.50%. In four of the last eight years, the Plan's annual return exceeded the required long-term expected investment return. Over eight years, the Plan's annualized return of 2.6% was less than the long-term expected return of 6.50% by 3.9%. Over 15 years, the Plan's annualized return of 6.4% approximated the Plan's expected long-term return of 6.5%.



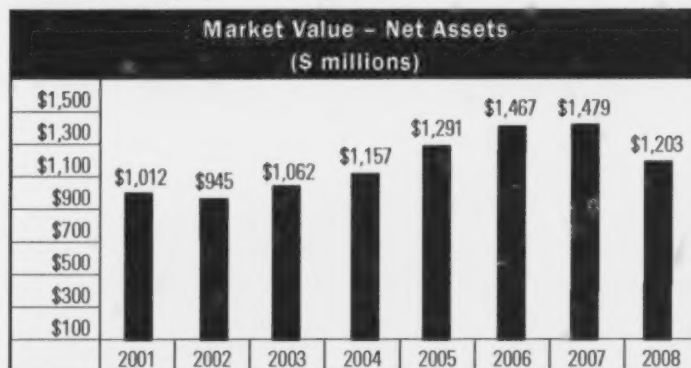
a n n u a l r e p o r t
2 0 0 8

special forces

pension plan

fair value of plan's net assets

At December 31, 2008, the fair value of the Plan's net assets decreased to \$1.203 billion, down \$276 million from \$1.479 billion the previous year after taking into account the investment loss of \$260 million and the excess pension benefits paid over contributions received from employees and employers of \$16 million.



board activities

The SFP Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the *SIP&G* annually, the SFP Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The SFP Board monitors the services provided to the Plan by AIMCo. Services provided and charges for those services including performance standards are set out in the *SIP&G* between AIMCo and the SFP Board.

The SFP Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The SFP Board then reviews the fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the *SIP&G*.

asset mix

For 2008, the asset mix attributed to public equities is 52%, fixed income securities 29%, alternative investments 12% and real estate 7%.

The Plan's alternative investment portfolio includes private income, global private equities and timberland investments. They are relatively illiquid asset classes, and require time to build and exit investments. Both private income and timberland investments are structured to provide high current income. Private equity investments include primarily venture capital and merchant banking investments. Venture capital entities' activities include early stage financings and in some cases financing for start-up companies. The merchant banking sector is involved in transactions such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. Private income investments include infrastructure projects that are structured to provide high current income. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power/energy (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water and natural gas network). The timberland investment represents an interest in a limited partnership that holds forestry land and land held for better use in the Province of British Columbia.

The table below shows the policy asset mix for the Plan compared to the actual policy asset mix for 2008 and the previous year.

	Long-term Policy Asset Mix		Actual Asset Mix	
	2008 %	2007 %	2008 %	2007 %
Fixed Income				
Short-term Investments	1.0	1.0	1.3	0.8
Bonds and Mortgages	12.0	12.0	12.2	22.0
Long Government Bonds	14.0	14.0	15.8	10.7
Real Return Bonds	2.0	2.0	2.3	2.0
Total Fixed Income	29.0	29.0	31.6	35.5
Equities				
Public Equities				
Canadian	17.0	17.0	16.1	18.2
United States	17.5	17.5	18.3	17.6
Non-North American	17.5	17.5	19.1	18.4
	52.0	52.0	53.5	54.2
Real Estate	7.0	7.0	9.5	7.6
Alternative Investments				
Private Income	5.0	5.0	3.0	1.6
Private Equities	5.0	5.0	1.8	0.6
Timberland	2.0	2.0	0.6	0.5
	12.0	12.0	5.4	2.7
Total Equities	71.0	71.0	68.4	64.5
Grand Total	100.0	100.0	100.0	100.0

sfpp investment results in relation to the benchmarks

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the SFP Board. Investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices:

DEX 91-Day T-Bill Index, DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Capped Composite Index, Nesbitt Burns Small Cap Index, S&P 500 Index, Russell 2500 Index, MSCI EAFE Index, IPD Large Institutional All Property Index, CPI plus 8%, CPI plus 6% and CPI plus 4%.

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns.

In 2008, the Plan's overall loss of 17.7% from its investments exceeded the benchmark loss of 14.2% by 3.5%. Over four years, the Plan's investments gained 1.9% per year, 0.3% less than the policy benchmark return of 2.2%. Over an eight-year period, the Plan returned 2.6% per year, exceeding the policy benchmark return of 2.4% by 0.2%. Over 15 years, the Plan earned 6.4% per year on an annualized basis the same as the policy benchmark.

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

	Annual Returns				Annualized Returns				
	2008	2007	2006	2005	1yr	2yr	3yr	4yr	8yr
	%	%	%	%	%	%	%	%	%
Total Fund	(17.7)	1.9	14.6	12.1	(17.7)	(8.4)	(1.3)	1.9	2.6
Policy Return (1)	(14.2)	1.1	13.8	10.6	(14.2)	(6.9)	(0.5)	2.2	2.4
Consumer Price Index (2)	1.2	2.4	1.6	2.2	1.2	1.8	1.7	1.8	2.0
Short-term Fixed Income	4.1	8.2	3.9	2.8	4.1	6.1	5.4	4.7	4.1
DEX 91-Day T-Bill Index	3.3	4.4	4.0	2.6	3.3	3.9	3.9	3.6	3.3
Total Long Term Fixed Income	(0.1)	2.2	4.4	7.8	(0.1)	1.0	2.2	3.6	5.9
Long-term Benchmark Index (3)	6.2	3.8	3.7	7.2	6.2	5.0	4.6	5.2	6.4
Canadian Equities	(34.9)	9.9	18.3	24.5	(34.9)	(15.4)	(5.4)	1.3	3.0
Canadian Equity Index (4)	(34.5)	8.9	17.3	23.7	(34.5)	(15.6)	(5.8)	0.8	2.0
United States Equities	(28.6)	(10.3)	15.4	3	(28.6)	(20.0)	(9.6)	(6.8)	(5.9)
U.S. Equity Index (5)	(21.8)	(11.1)	15.8	2.1	(21.8)	(16.6)	(7.0)	(4.8)	(5.0)
Non-North American Equities	(32.5)	(2.8)	26.7	12.9	(32.5)	(19.0)	(6.0)	(1.6)	(2.1)
MSCI EAFE Index	(29.8)	(5.7)	26.3	10.0	(29.8)	(18.7)	(5.8)	(2.1)	(2.6)
Total Foreign Equity	(30.6)	(6.5)	21.3	7.6	(30.6)	(19.5)	(7.7)	(4.1)	(3.9)
Foreign Equity Index	(25.6)	(8.3)	21.1	6.3	(25.6)	(17.4)	(6.2)	(3.2)	(3.6)
Real Estate	5.4	20.8	21.3	29.9	5.4	12.8	15.6	19.0	13.7
IPD Large Institutional All Property Index (6)	3.1	16.0	18.6	19.4	3.1	9.3	12.4	14.1	12.0
Alternative Investments	1.5	20.4	14.0	10.8	1.5	10.6	11.7	11.5	n/a
Alternative Investments Index (7)	8.2	7.9	6.5	n/a	8.2	8.1	7.5	n/a	n/a

(1) The policy benchmark is a product of the weighted average policy sector weights and sector returns.

(2) The Consumer Prices Index (CPI) is reported on a real-time basis.

(3) Combined DEX Universe, DEX Long All Government and DEX Real Return Bond Index.

(4) Combined S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.

(5) Combined S&P 500 Index and Russell 2500 Index.

(6) The 2007 Real Estate benchmark return has been updated to include the published IPD Large Institutional All Property Index for the fourth quarter of 2007. In SFPP's published 2007 annual report, the estimated IPD Large Institutional All Property Index policy benchmark return was 16.7%.

(7) Combined Consumer Price Index (CPI) plus 8%, 6%, and 4% for private equity, private income and timberland respectively.

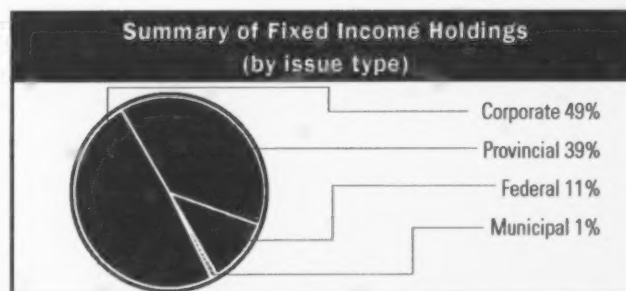
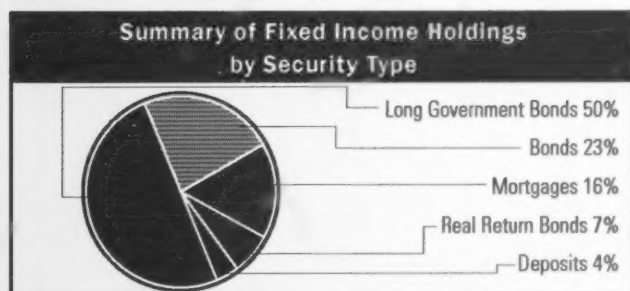
fixed income investments

The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. In 2008, the combined DEX Universe Bond, Long-term Government and Real Return Bond indices increased by 6.2% while the short-term DEX 91-Day T-Bill Index increased by 3.3%.

The Plan's actual loss in 2008 from long-term fixed income securities was 0.1%, 6.3% less than the combined long-term fixed income benchmark's gain of 6.2%. The actual return from the Plan's cash and short-term investments was 4.1% in 2008, compared to the benchmark, DEX 91-Day T-Bill Index, return of 3.3%. Over four years, the actual return from long-term fixed income securities was 3.6% or 1.6% less than the benchmark of 5.2%.

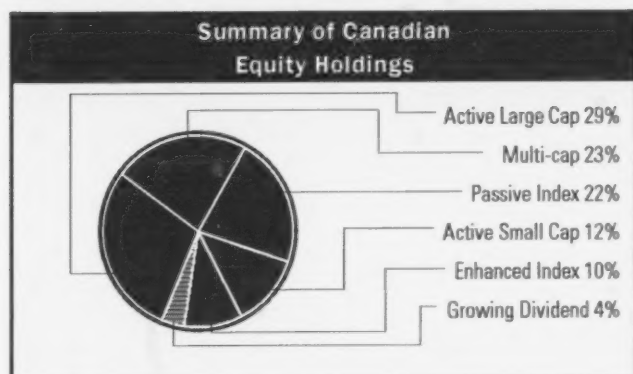
Long-term Fixed Income	Actual Return %	Benchmark * %	Net Value Added (Lost) %
One Year	(0.1)	6.2	(6.3)
Four Years (annualized)	3.6	5.2	(1.6)
* Combined DEX Universe, Long government and Real Return Bond Indices.			
Short-term Fixed Income	Actual Return %	Benchmark * %	Net Value Added (Lost) %
One Year	4.1	3.3	0.8
Four Years (annualized)	4.7	3.6	1.1
* DEX 91-Day T-Bill Index			

At December 31, 2008, investments in bonds, mortgages and cash totaled 31.6% of the Plan's total investments or \$379 million, down from 35.5% or \$524 million the previous year.



canadian public equity investments

At December 31, 2008, Canadian public equities represented 16.1% of the SFPP's total investments or \$193 million, down from 18.2% or \$267 at the end of the previous year. Canadian equities include actively managed large cap and small cap portfolios and passively managed portfolios based on the benchmark S&P/TSX Composite Index. Actively managed large cap strategies include companies with large market capitalization which incorporate value, growth, and core styles.



Canadian Equity Holdings by Industry Sector		
	2008 %	2007 %
Financials	27	28
Energy	27	26
Materials	16	17
Industrials	8	8
Consumer discretionary	7	6
Telecommunications	6	6
Information technology	3	5
Consumer staples	3	2
Utilities	2	1
Health Care	1	1
	100	100

The actual loss from Canadian equity investments over the last year was 34.9%, 0.4% more than the benchmark loss of 34.5%.

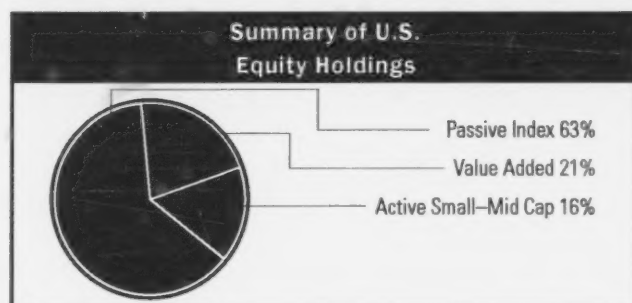
Canadian Public Equities	Actual Return %	Benchmark * %	Net Value Added (Lost) %
One Year	(34.9)	(34.5)	(0.4)
Four Years (annualized)	1.3	0.8	0.5

foreign equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and Emerging Markets.

u.s. public equities

At December 31, 2008, U.S. public equities comprised 18.3% of the Plan's total investments or \$220 million compared to 17.6% or \$263 million the previous year. 63% of the U.S. portfolio is passively managed to the S&P 500 Index, 17% is an actively managed small mid cap strategy and the remaining 20% provides exposure to the S&P 500 Index with value added provided by hedge fund managers.



U.S. Equity Holdings by Industry Sector		
	2008 %	2007 %
Information technology	15	16
Health care	15	12
Financials	14	18
Energy	12	12
Industrials	12	12
Consumer staples	12	9
Consumer discretionary	9	10
Materials	4	4
Utilities	4	4
Telecommunications	3	3
	100	100

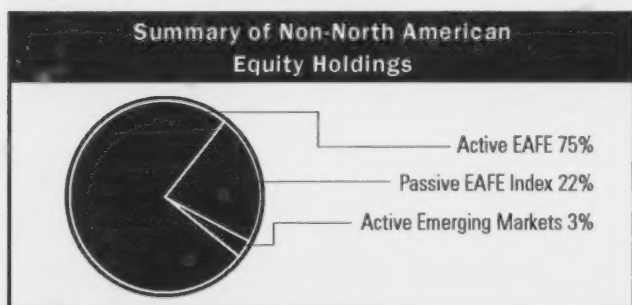
The Plan's actual loss from U.S. equity investments in 2008 was 28.6%, 6.8% more than the benchmark loss of 21.8% in Canadian dollars.

U.S. Public Equities	Actual Return %	Benchmark* %	Net Value Added (lost) %
One Year	(28.6)	(21.8)	(6.8)
Four Years (annualized)	(6.8)	(4.8)	(2.0)

* Combined S&P 500 and Russell 2500 Index.

non-north american public equities

At December 31, 2008, non-North American public equities comprised 19.1% or \$228 million of total Plan investments compared to 18.4% or \$271 million the previous year. Approximately 75% of the Plan's non-North American equity component is actively managed strategies in Europe, Australasia and the Far East (EAFE). 22% of the portfolio is passively managed to the MSCI EAFE Index while the remaining 3% is invested in emerging markets.



Non-North American Equity Holdings by Industry Sector		
	2008 %	2007 %
Financials	20	21
Consumer staples	12	7
Industrials	11	15
Health care	11	7
Telecommunications	10	8
Energy	10	9
Consumer discretionary	9	12
Materials	6	9
Information technology	6	7
Utilities	5	5
	100	100

The Plan's actual loss from non-North American equity investments in 2008 was 32.5%, 2.7% more than the benchmark loss of 29.8% in Canadian dollars.

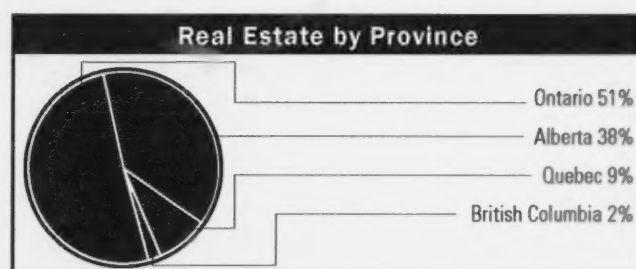
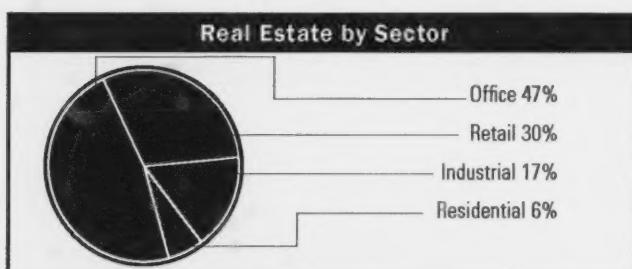
Non-North American Equities	Actual Return %	Benchmark %	Net Value Added %
One Year	(32.5)	(29.8)	(2.7)
Four Years (annualized)	(1.6)	(2.1)	0.5

* MSCI EAFE Index

real estate

At December 31, 2008, the Plan's Canadian real estate portfolio comprised 9.5% or \$114 million of the Plan's total investment portfolio up from 7.6% or \$112 million the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality properties, featuring strong locations and tenants.

Top Five Real Estate Holdings (as at December 31, 2008)		
Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Square One Shopping Centre	Mississauga, Ontario	Retail
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office



The Plan's actual return from real estate investments in 2008 was 5.4%, 2.3% better than the benchmark return of 3.1%.

Real Estate	Actual Return %	Benchmark * %	Net Value Added (Lost) %
One Year	5.4	3.1	2.3
Four Years (annualized)	19.0	14.1	4.9

* IPD Large Institutional All Property Index

alternative investments

At December 31, 2008, the Plan's alternative investment portfolio comprised 5.4% of total investments or \$65 million up from 2.7% or \$40 million the previous year. The alternative investment portfolio consists of externally managed private equity, private income and timberland investments. These investments are all relatively illiquid asset classes and require time to build and exit the investment.

Overall, the actual return from alternative investments during the year was 1.5%, 6.7% less than the benchmark return of 8.2%.

Alternative Investments	Actual Return %	Benchmark * %	Net Value Added (Lost) %
One Year	1.5	8.2	(6.7)
Four Years (annualized)	11.5	n/a	n/a

* Combined Consumer Price Index (CPI) plus 8%, 6% and 4%.

private income

At December 31, 2008, private income investments comprised 3.0% of the Plan's total investment portfolio or \$36 million, up from 1.6% or \$24 million the previous year. Private income investments include infrastructure related projects that are structured to yield high current income. In 2008, private income investments returned 10.0%.

timberland

At December 31, 2008, timberland investments comprised 0.6% of the Plan's total investment portfolio or \$8 million compared to 0.5% or \$8 million the previous year. Timberland includes investments in forestry land in Canada and globally. The timberland investment in Canada represents an interest in a limited partnership which includes forestry land and land held for higher and better use located in British Columbia. In 2008, timberland investments lost 8.7%.

private equities

At December 31, 2008, the global private equity investment comprised 1.8% of the Plan's total investment portfolio or \$22 million up from 0.6% or \$8 million the previous year. The portfolio includes investments in institutionally sponsored international private equity pools managed by experienced external investment advisors with proven track records. Private equities lost 7.2% in 2008.

forward looking statements

The global economy enters 2009 in recession. Consumer and industrial activity around the world collapsed in the fourth quarter of 2008 in the wake of the seizure of global credit markets. Consumers continue to be hit by a falling housing market, weak equity markets, and a weak employment situation. Further, the banking sector remains hampered in its ability to extend new credit to consumers or businesses as it repairs its collective balance sheet from the losses of 2007 and 2008. Given these factors, we expect to see a consumer retrenchment in the United States, with consumers increasing their savings at the expense of consumption expenditure.

This bodes ill for the global economy in 2009. The U.S. consumer sector makes up approximately 70% of U.S. GDP, which in turn makes up approximately 20% of global GDP. U.S. consumer spending has been the driver of global growth for the last several years. With the consumer likely to save more in the period ahead, we expect global growth to be very disappointing through 2009. To offset this, governments and central banks have been taking stimulative action. While this will take the edge off the downturn in growth, it will not prevent it from coming.

At present it is not clear that this is fully factored into corporate profit estimates. We expect profit growth to be disappointing. This, when balanced against equity markets that have seen valuation improvements, suggests a market with elevated volatility and, at best, modest returns. Indeed, we expect all risky asset classes to face challenges this year.

The present environment will create opportunities for capital providers in all asset classes. As both high and low quality assets have sold off in the current crisis, there are opportunities to acquire assets at a discount. The challenge is to identify those of the highest quality that will be able to endure what is sure to be a very challenging 2009.

risk management system

AIMCo has developed a market risk system to model and measure the market risks associated with investments for SFPP. In the future, the risk system will provide a framework for measuring, monitoring and managing risk to assist in future decisions regarding investment and risk policies. During 2008 the SFP Board worked with AIMCo on risk management education and developing risk system language and processes to include in the SFPP investment policy statement, which was approved in early 2009.

proxy voting

The SFP Board delegates responsibility for proxy voting to AIMCo. Pension funds are managed in the best interests of beneficiaries; therefore AIMCo's governance principle is to vote proxies in this manner.

AIMCo outsourced proxy voting for most of 2008 to ISS Governance Services (ISS) of RiskMetrics Group. Outsourcing provides a comprehensive, reliable voting platform and permits users to monitor and audit the work done on AIMCo's behalf. AIMCo conducted a standard request-for-proposals in 2008 to ensure that the service employed by AIMCo is the best available. The contract winner was Glass Lewis, who commenced proxy services for AIMCo in December of 2008. Glass Lewis is a leader in proxy research and operations with a client base consisting of hundreds of money managers, mutual fund companies, plan sponsors and hedge funds across the globe. Glass Lewis does not provide consulting services to issuers or their directors, and therefore has no conflicts of interest while guaranteeing coverage of all companies in their clients' portfolios in a standard universe that includes nearly 16,000 public companies across 65 countries. AIMCo retains the right to over-ride Glass Lewis should any vote appear to be contrary to AIMCo's own governance principles.

AIMCo monitors the opinions of peer organizations and the Canadian Coalition for Good Governance (CCGG) regarding potentially contentious issues and the governance practices of specific companies. AIMCo is also a member of the CCGG.

financial statements

photo courtesy of Calgary Police Service

management's responsibility for financial reporting

The Special Forces Pension Plan (Plan) financial statements and financial information in the 2008 Annual Report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- Alberta Investment Management Corporation (AIMCo), which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board; and
- Alberta Pensions Administration Corporation (APA), which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance and Enterprise. This responsibility also includes compilation of the Plan's Annual Report.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APA and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2008 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, APA and AIMCo each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Original signed by

Robert Bhatia
Deputy Minister of Finance and Enterprise

April 3, 2009



auditor's report

To the Minister of Finance and Enterprise and the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Special Forces Pension Plan as at December 31, 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
April 3, 2009

special forces pension plan

statement of net assets available for benefits and liability for accrued benefits as at december 31, 2008

	2008	2007
	(\$ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	\$ 1,199,702	\$ 1,475,924
Contributions receivable (Note 6)	3,333	2,801
	<u>1,203,035</u>	<u>1,478,725</u>
Liabilities		
Accounts payable	31	189
Net assets available for benefits	<u>1,203,004</u>	<u>1,478,536</u>
Liability for Accrued benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,618,104	1,543,522
Indexing Fund	14,866	13,665
	<u>1,632,970</u>	<u>1,557,187</u>
Deficiency at end of year		
Plan Fund (Note 8)*	<u>(429,966)</u>	<u>(78,651)</u>

* The Plan Fund deficiency is comprised of a pre-1992 deficiency of \$243,888 (2007: \$85,843) and a post-1991 deficiency of \$186,078 (2007: surplus \$7,192).

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in net assets available for benefits for the year ended december 31, 2008

	2008		2007
	Plan Fund	Indexing Fund	Total
	(\$ thousands)		
Increase in assets			
Net investment (loss) income (Note 9)			
Investment (loss) income	\$ (252,746)	\$ (2,859)	\$ (255,605)
Investment expenses	(4,133)	-	(4,133)
	(256,879)	(2,859)	(259,738)
Contributions (Note 10)	57,904	4,059	61,963
	(198,975)	1,200	(197,775)
Decrease in assets			
Pension benefits	72,490	-	72,490
Refunds and transfers	4,247	-	4,247
Member service expenses (Note 11)	1,020	-	1,020
	77,757	-	77,757
(Decrease) Increase in net assets	(276,732)	1,200	(275,532)
Net assets available for benefits at beginning of year	1,464,870	13,666	1,478,536
Net assets available for benefits at end of year	\$ 1,188,138	\$ 14,866	\$ 1,203,004
			\$ 1,478,536

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in liability for accrued benefits for the year ended december 31, 2008

	Pre-1992	2008 Post-1991	Total	2007 Total
	(\$ thousands)			
Increase in liability for accrued benefits				
Interest accrued on benefits	\$ 50,184	\$ 47,723	\$ 97,907	\$ 93,792
Benefits earned	46	45,090	45,136	40,206
Net increase (decrease) due to actuarial assumptions changes (Note 7a)	(11,420)	13,267	1,847	41,108
Net experience losses (Note 7b)	-	-	-	3,726
Cost-of-living indexing adjustments and interest	1,711	2,918	7,629	15,626
	43,521	108,998	152,519	194,458
Decrease in liability for accrued benefits				
Benefits, transfers and interest	59,700	17,036	76,736	71,257
	59,700	17,036	76,736	71,257
Net increase (decrease) in liability for accrued benefits	(16,179)	91,962	75,783	123,201
Liability for accrued benefits at beginning of year	814,141	743,046	1,557,187	1,433,986
Liability for accrued benefits at end of year (Note 7)	\$ 797,962	\$ 835,008	\$ 1,632,970	\$ 1,557,187

The accompanying notes and schedules are part of these financial statements.

special forces pension plan**statement of changes in surplus (deficiency)
for the year ended december 31, 2008**

	Pre-1992	2008 Post-1991	Total	2007 Total
	(\$ thousands)			
(Deficiency) surplus at beginning of year	\$ (85,843)	\$ 7,192	\$ (78,651)	\$ 33,274
(Decrease) increase in net assets available for benefits	(174,224)	(101,308)	(275,532)	11,276
Net (decrease) increase in liability for accrued benefits	16,179	(91,962)	(75,783)	(123,201)
Deficiency at end of year (Note 14)	\$ (243,888)	\$ (186,078)	\$ (429,966)	\$ (78,651)

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

notes to the financial statements

december 31, 2008

(All dollar amounts in thousands, except per member data)

note 1 — summary description of the plan

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The Minister of Alberta Finance and Enterprise (the Minister) is the legal trustee for the Plan, and accordingly Alberta Finance and Enterprise is management of the Plan. The plan is governed by a Board of Trustees.

(b) Plan Funding

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan. Employees and employers are responsible for fully funding service after 1991.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2008 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

The Special Forces Pension Board (the Board), in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2006. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2008 for current service and post-1991 actuarial deficiency were unchanged from December 31, 2006 at 9.61% of pensionable salary for employers and 8.51% for employees. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and cost of living adjustment (COLA) payments to the Plan are 11.11% of pensionable salary for employers and 10.01% for employees and 1.25% for the Province of Alberta.

Indexing Fund

Benefit payment increases for post-1991 cost-of-living adjustment (COLA) (see Note 1(ii)) are funded by contributions to the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2008 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary. To date, contributions to the Indexing Fund have provided COLA for service from 1992 to 2000.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

note 1 — summary description of the plan (continued)

(c) Retirement Benefits

The Plan provides for a lifetime pension of 1.4% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the federal *Income Tax Act*. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the plan is 35 years.

For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, guaranteed for a five-year period, with 65% continuing to the pension partner if he or she survives the member. For a member who does not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

(e) Death Benefits

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

(f) Termination Benefits, Refunds and Transfers

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

(g) Guarantee

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund (see Note 12). As of December 31, 2008, COLA has been granted to December 31, 2000.

note 2 — summary of significant accounting policies and reporting practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds, which are held directly by the Plan, Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Investments

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The methods used to determine fair value of investments held either by the plan or by pooled investment funds is explained in the following paragraphs:

- i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- iii) The fair value of private equity and income investments are estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.
- iv) The fair value of private real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization and the discounted cash flows.
- v) The fair value of timberland investments is appraised annually by independent third party valuers.

(c) Income Recognition

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

note 2 — summary of significant accounting policies and reporting practices (continued)

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

- i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.
- ii) Interest rate swaps and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.
- iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
- iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.
- v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

(f) Valuation of Liability for Accrued Benefits

The value of liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and then extrapolated, on an annual basis, to year-end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

- i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's liability for accrued benefits, and
- ii) the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

note 2 — summary of significant accounting policies and reporting practices (continued)**(g) Measurement Uncertainty (continued)**

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

note 3 — Investments (schedules a to e)

	2008		2007	
	Fair Value		Fair Value	
	(\$ thousands)	%	(\$ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	\$ 10,539	0.9	\$ 8,415	0.6
Universe Fixed Income Pool (b)	117,420	9.8	262,533	17.8
Canadian Long Term Government Bond Pool (b)	190,652	15.8	156,955	10.6
Private Mortgage Pool (c)	58,618	4.9	61,769	4.2
Real Rate of Return Bonds (d)	27,880	2.3	29,633	2.0
Currency Alpha Pool (e)	3,251	0.3	2,103	0.1
Fixed Income Overlay Strategy Pool (f)	(29,877)	(2.5)	-	-
Tactical Asset Allocation Pool	878	0.1	2,375	0.2
	379,361	31.6	523,783	35.5
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	31,119	2.6	47,662	3.2
Canadian Pooled Equities Fund (h)	40,849	3.4	58,547	3.9
Canadian Large Cap Equity Pool (i)	13,672	1.1	19,419	1.3
Canadian Small Cap Equity Pool (i)	23,682	2.0	35,483	2.4
Canadian Equity Enhanced Index Pool (j)	19,939	1.7	28,734	1.9
Canadian Multi-Cap Pool (k)	43,966	3.6	63,869	4.3
Growing Equity Income Pool (l)	8,459	0.7	12,203	1.0
Private Equity Pool	-	-	992	0.1
Canadian Overlay Strategy Pool (f)	11,751	1.0	-	-
	193,437	16.1	266,909	18.2

note 3 — investments (schedules a to e) (continued)

	2008		2007	
	Fair Value		Fair Value	
	(\$ Thousands)	%	(\$ Thousands)	%
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	135,596	11.3	168,537	11.4
U.S. Small/Mid Cap Equity Pool (n)	35,016	2.9	44,199	3.0
Portable Alpha U.S. Pool (o)	45,065	3.7	47,495	3.2
Growing Equity Income Pool (l)	723	0.1	2,649	-
U.S. Overlay Strategy Pool (f)	3,625	0.3	-	-
	220,025	18.3	262,880	17.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	172,141	14.3	225,414	15.3
Emerging Markets Equity Pool (q)	5,469	0.5	10,052	0.7
EAFE Structured Equity Pool (r)	27,366	2.3	35,295	2.4
Structured Transition Pool (s)	745	0.1	-	-
EAFE Overlay Strategy Pool (f)	22,664	1.9	-	-
	228,385	19.1	270,761	18.4
Real Estate Equities (Schedule E)				
Private Real Estate Pool (t)	113,600	9.5	111,891	7.6
Alternative Investments - Equities				
Private Income Pools (u)	35,654	3.0	23,681	1.6
Timberland Pools (v)	7,627	0.6	7,602	0.5
Global Private Equities (w)	21,613	1.8	8,417	0.6
	64,894	5.4	39,700	2.7
Total equities	820,341	68.4	952,141	64.5
Total investments	\$ 1,199,702	100.0	\$ 1,475,924	100.0

note 3 — investments (schedules a to e) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Universe Fixed Income Pool (UFIP) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Universe Bond Index and the DEX Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The UFIP portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans, provincial bond residuals and specialty mortgages. The pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

(f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, EAFE equities, major foreign currencies and styles and sectors. At December 31, 2008, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

(g) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(i) The Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The Canadian Equity Enhanced Index Pool consists of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

note 3 — Investments (schedules a to e) (continued)

(k) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.

(m) The U.S. Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(n) The U.S. Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the U.S. Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(o) The Portable Alpha U.S. Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(p) The EAFE (Europe, Australia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

(r) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The Pool provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(s) The Structured Transition Pool provides exposure to non-North American markets through the use of structured investments such as foreign equity index swaps.

(t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the Pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

note 3 — investments (schedules a to e) (continued)

(u) Private Income Pools are managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to provide high current income.

(v) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than the CPI plus 4%.

(w) The Global Private Equity Pool is managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8%. The Foreign Private Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

note 4 — investment risk management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term benchmark policy asset mix for investments:

Fixed income securities	29.0%
U.S. equities	17.5%
Non-North American equities	17.5%
Canadian equities	17.0%
Real estate	7.0%
Private income	5.0%
Private Equities	5.0%
Timberland	2.0%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

note 5 — derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified time period.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2008:

	2008			2007			
	Maturity			Net		Net	
	Under	1 to 3	Over	Notional	Fair	Notional	Fair
	1 Year	Years	3 Years	Amount	Value (a)	Amount	Value (a)
	%			(\$ thousands)		(\$ thousands)	
Equity index swap contracts	94	6	-	\$ 295,033	\$ 3,478	\$ 328,621	\$ (4,000)
Credit default swap contracts	8	44	48	175,941	(4,001)	280,126	(833)
Forward foreign exchange contracts	100	-	-	113,003	(2,993)	122,896	(537)
Interest rate swap contracts	14	57	29	88,030	(4,380)	157,308	(752)
Cross-currency interest rate swaps	19	63	18	69,902	(2,211)	84,373	4,116
Futures contracts	100	-	-	58,345	8,202	80,276	2,062
Bond index swap contracts	100	-	-	7,994	210	55,914	1,331
Swap option contracts	-	-	-	-	-	150,276	28
				\$ 808,248	\$ (1,695)	\$ 1,259,790	\$ 1,415

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

note 5 — derivative contracts (continued)

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

Note 6 — contributions receivable

	2008	2007
	(\$ thousands)	
Contributions receivable		
Employers	\$ 1,529	\$ 1,193
Employees	1,399	1,303
Province of Alberta	378	239
	3,306	2,735
Payable to Alberta Pensions Administration Corporation	(41)	(5)
Receivable from sale of investments and accrued investment income	68	71
	\$ 3,333	\$ 2,801

note 7 — liability for accrued benefits

(a) Actuarial Valuation and Extrapolation Assumptions

An actuarial valuation of the Plan was carried out in 2007 as at December 31, 2006 by Hewitt and Associates and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of \$1,632,970 (2007: \$1,557,187) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment return, inflation rate, salary escalation rate and the inflation rate.

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2006 Valuation and 2008 Extrapolation	2006 Valuation and 2007 Extrapolation
	%	
Investment return	6.50	6.50
Inflation rate	2.25	2.50
Salary escalation rate*		
For 2007	3.90	3.90
For 2008	4.40	4.40
Thereafter	3.50	3.00

* In addition to merit and promotion.

(b) Net Experience Losses

Net experience losses of \$nil (2007 - \$3,726) arose from differences between the actuarial assumptions used in the valuation and actual results.

note 7 — liability for accrued benefits (continued)**(c) Sensitivity of Changes in Major Assumptions**

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2008:

	Changes in Assumptions %	Increase in Plan Deficiency (\$ thousands)	Increase in Current Service Cost as a % of Pensionable Earnings*
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	97,000	0.0**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	40,000	1.8
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	252,000	4.2

* The current service cost as a % of pensionable earnings as determined by the December 31, 2006 valuation was 16.48%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

Note 8 — plan fund deficiency

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the unfunded liability with respect to service that was recognized as pensionable as at December 31, 1991.

The following table summarizes the fair value of net assets, liability for accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2008:

	2008			2007
	Pre-1992	Post-1991	Total	Total
	(\$ thousands)			
Plan Fund net assets available for benefits	\$ 554,075	\$ 634,063	\$ 1,188,138	\$ 1,464,870
Plan Fund accrued benefits	797,963	820,141	1,618,104	1,543,521
Plan Fund Deficiency (Note 14)	\$ (243,888)	\$ (186,078)	\$ (429,966)	\$ (78,651)

As at December 31, 2008, the Indexing Fund held investments of \$14,866 (2007: \$13,666) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is nil (2007: nil).

This plan fund deficiency is for accounting purposes and may differ from the plan fund deficiency for funding purposes.

note 9 — net investment (loss) income**(a) Investment (Loss) Income**

Net investment (loss) income is comprised of the following:

	2008	2007
	(\$ thousands)	
Investment (loss) income		
Net realized and unrealized loss on investments, including those arising from derivative transactions	\$ (310,073)	\$ (26,498)
Interest income	33,149	39,688
Dividend income	14,902	14,135
Real estate operating income	5,258	4,616
Securities lending income	1,159	609
	(255,605)	32,550
Investment expenses	(4,133)	(4,181)
Net investment (loss) income	\$ (259,738)	\$ 28,369

The following is a summary of the Plan's proportionate share of net investment (loss) income by type of investments:

	2008	2007
	(\$ thousands)	
Real estate	\$ 5,886	\$ 20,285
Private income	3,049	2,501
Private equities	(1,905)	192
Fixed income securities	53	11,811
Timberland	(1,145)	3,025
United States equities	(80,393)	(28,504)
Non-North American equities	(91,790)	(7,488)
Canadian equities	(93,493)	26,547
	\$ (259,738)	\$ 28,369

note 9 — net investment (loss) income (continued)

(a) Investment (Loss) Income (continued)

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Fifteen-Year Compound Annualized Return
Time-weighted rates of return*				
Actual (loss) gain	(17.7%)	1.9%	2.6%	6.4%
Policy Benchmark (loss) gain**	(14.2%)	2.2%	2.4%	6.4%
Value (lost) added from active management	(3.5%)	(0.3%)	0.2%	0.0%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

(b) Investment Expenses

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by Alberta Investment Management Corporation are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. Alberta Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets and per member are provided below:

	2008	2007
	(\$ thousands)	
Total investment expenses	\$ 4,133	\$ 4,181
Investment expenses as a percentage of net assets	0.34%	0.28%
Investment expenses per member	\$ 730	\$ 776

note 10 — contributions

	2008	2007
	(\$ thousands)	
Current and optional service		
Employers	\$ 26,942	\$ 24,063
Employees	24,578	21,956
Unfunded liability		
Employers	3,323	2,880
Employees	3,323	2,880
Province of Alberta	3,433	2,975
Transfers from other plans (net)	364	341
	\$ 61,963	\$ 55,095

note 11 — member service expenses

	2008	2007
	(\$ thousands)	
General administration costs	\$ 950	\$ 797
Actuarial fees	70	137
	\$ 1,020	\$ 934
Member service expense per member	\$180	\$174

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister.

note 12 — total plan expenses

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are \$5,153 (2007: \$5,115) or \$910 (2007: \$950) per member and 0.43% (2007: 0.35%) of net assets under administration.

note 13 – remuneration of board members

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2008:		
Up to 4 hours	\$ 210	\$ 157
4 to 8 hours	367	278
Over 8 hours	576	409
	2008	2007
During 2008, the following amounts were paid:		
Remuneration		
Chair	\$ 5,826	\$ 2,450
Members	27,240	19,926
Travel expenses		
Chair	968	2,067
Members	18,821	12,713

note 14 – transfer from the indexing fund to the plan fund

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As at December 31, 2008, cost-of-living increases for post-1991 service from January 1, 1992 to December 31, 2000 have been granted at 60% of the increase in the Alberta Consumer Price Index.

note 15 – funding of actuarial deficiency

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to \$1,321,800 at December 31, 2008 (2007: \$1,454,000).

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 1.86% of pensionable salary shared equally between employees and employers until December 31, 2019. The special payment is included in the rates in effect at December 31, 2008 (see Note 1(b)).

note 16 — subsequent event - decline in fair value investments

The fair value of the Plan's investment is subject to significant market volatility due to the current economic crisis in global markets. In the two months subsequent to December 31, 2008, the Plan's investments declined by approximately 8.6% to approximately \$1,104,000 from \$1,199,702 at December 31, 2008. To the extent that investments of the Plan may not recover this market related losses during the remaining ten months of 2009, the deficiency of the Plan will increase accordingly.

note 17 — comparative figures

Comparative figures have been reclassified to be consistent with 2008 presentation.

note 18 — responsibility for financial statements

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by Alberta Pensions Administration Corporation, Alberta Investment Management Corporation and the Plan's actuary, and after consultation with the Special Forces Pension Board.

special forces pension plan**schedule of effective investments in fixed income securities
december 31, 2008**

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 23,093	\$ 13,591
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	40,076	109,761
Provincial		
Alberta, direct and guaranteed	32	78
Other Provincial, direct and guaranteed	138,159	129,998
Municipal	4,431	3,454
Corporate	173,609	260,682
	356,307	503,973
Receivable from sale of investments and accrued investment income	3,631	6,686
Accounts payable and accrued liabilities	(3,670)	(467)
	(39)	6,219
	\$ 379,361	\$ 523,783

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Government of Canada bonds includes the notional amount of Canada bond futures contracts totalling \$33,099 (2007: \$nil).

(b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.6% per annum (2007: 5.8% per annum). The following term structure of these securities as at December 31, 2008 is based on principal amount:

	2008	2007
	%	
Under 1 year	2	3
1 to 5 years	17	19
6 to 10 years	14	29
11 to 20 years	14	14
Over 20 years	53	35
	100	100

special forces pension plan

schedule of effective net investments in canadian equities
december 31, 2008

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 4,818	\$ 1,854
Public equities (a) (b)		
Consumer discretionary	12,130	15,177
Consumer staples	6,484	5,864
Energy	49,112	66,346
Financials	50,125	71,906
Health care	1,264	1,142
Industrials	14,616	20,004
Information technology	6,485	13,488
Materials	29,682	42,098
Telecommunication services	10,701	13,850
Utilities	2,922	2,875
	183,521	252,750
Pooled investment funds	5,595	9,730
Private Equity Pool	-	992
Receivable from sale of investments		
and accrued investment income	4,309	2,579
Accounts payable and accrued liabilities	(4,806)	(996)
	(497)	1,583
	\$ 193,437	\$ 266,909

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling \$71,188 (2007: \$83,751).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

special forces pension plan**schedule of effective net investments in united states equities
december 31, 2008**

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 2,491	\$ 4,032
Public equities (a) (b)		
Consumer discretionary	18,793	24,664
Consumer staples	24,990	24,308
Energy	26,150	31,024
Financials	31,457	46,079
Health care	31,962	32,461
Industrials	25,453	31,383
Information technology	33,744	43,234
Materials	7,743	10,683
Telecommunication services	7,539	8,495
Utilities	9,622	10,614
	<u>217,453</u>	<u>262,945</u>
Pooled investment funds	<u>170</u>	<u>740</u>
Receivable from sale of investments and accrued investment income	<u>2,676</u>	<u>1,033</u>
Accounts payable and accrued liabilities	<u>(2,765)</u>	<u>(5,870)</u>
	<u>(89)</u>	<u>(4,837)</u>
	<u>\$ 220,025</u>	<u>\$ 262,880</u>

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling \$182,725 (2007: \$179,830).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

special forces pension plan

schedule of effective net investments in non-north american equities
december 31, 2008

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 6,264	\$ 5,158
Public equities (a) (b)		
Consumer discretionary	20,308	30,664
Consumer staples	25,002	18,589
Energy	21,503	23,321
Financials	42,654	55,530
Health care	24,397	18,581
Industrials	24,577	40,018
Information technology	12,994	17,913
Materials	13,840	22,429
Telecommunication services	21,880	22,201
Utilities	11,886	12,642
	219,041	261,888
Pooled investment funds	2,730	5,553
Receivable from sale of investments		
and accrued investment income	2,131	1,364
Accounts payable and accrued liabilities	(1,781)	(3,202)
	350	(1,838)
	\$ 228,385	\$ 270,761

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling \$49,734 (2007: \$37,656).

special forces pension plan**schedule of effective net investments in non-north american equities (continued)**
december 31, 2007

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index. The following is a summary of the Plan's share of non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2008	2007
	(\$ thousands)	
Japan	\$ 52,733	\$ 47,383
United Kingdom	44,366	51,500
France	25,099	28,461
Germany	18,496	26,475
Switzerland	17,375	18,217
Spain	9,963	10,473
Australia	9,525	10,981
Italy	7,339	8,891
Netherlands	7,328	11,970
Hong Kong	4,247	5,343
Other	22,570	42,194
	<u>\$ 219,041</u>	<u>\$ 261,888</u>

special forces pension plan**schedule of investments in real estate
december 31, 2008**

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 249	\$ 124
Real estate (a)		
Office	51,127	50,078
Retail	32,883	35,233
Industrial	17,796	16,164
Residential	6,913	6,191
	108,719	107,666
Pooled investment funds	3,854	4,048
Accrued income and accounts receivable	778	53
	\$ 113,600	\$ 111,891

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2008	2007
	(\$ thousands)	
Ontario	55,739	58,104
Alberta	41,194	38,086
Quebec	9,435	9,227
British Columbia	2,351	2,249
	\$ 108,719	\$ 107,666

10-year plan summary (unaudited)

For the year ended december 31, 2008

(\$ thousands)	2008	2007	2006*	2005	2004	2003	2002	2001	2000	1999
Change in net assets										
Income										
Investment income (loss)	\$(259,738)	\$28,369	\$187,947	\$139,929	\$100,599	\$121,981	\$(58,936)	\$(25,851)	\$73,808	\$139,037
Contributions										
Employers	26,942	24,063	22,760	22,214	19,594	18,387	16,033	15,625	14,064	13,881
Employees	24,578	21,956	20,884	20,557	18,089	17,051	14,934	14,292	12,900	12,593
Unfunded liability										
Employers	3,323	2,880	2,775	2,721	2,392	2,226	1,324	1,279	1,165	1,113
Employees	3,323	2,880	2,775	2,721	2,392	2,226	1,324	1,279	1,165	1,113
Transfers from Alberta	3,433	2,975	2,866	2,788	2,471	2,300	2,206	2,132	1,924	1,856
Transfers from other plans	364	341	381	450	621	19	60	175	92	37
Total Income	(197,775)	83,464	240,388	191,380	146,158	164,190	(23,055)	8,931	105,118	169,630
Expenditures										
Benefits paid	72,490	65,724	58,744	53,370	49,201	45,509	42,883	38,865	36,427	34,204
Refunds and transfers	4,247	5,530	4,364	2,299	811	486	668	631	658	380
Administration expenses	1,020	934	1,010	1,373	1,326	1,196	1,017	797	658	630
Total expenditures	77,757	72,188	64,118	57,042	51,338	47,191	44,568	40,293	37,743	35,214
Increase (decrease) in net assets	(275,532)	11,276	176,270	134,338	94,820	116,999	(67,623)	(31,362)	67,375	134,416
Net Assets										
Investments										
Deposits	10,539	8,415	8,241	5,390	8,803	6,713	6,110	12,179	15,985	2,393
Fixed income securities	368,822	515,368	481,829	437,091	405,724	362,113	341,206	355,145	370,300	328,453
Equities										
Canadian	193,437	266,909	245,075	253,309	237,335	224,597	190,577	268,503	288,511	413,417
United States	220,025	262,880	304,896	238,623	210,834	196,839	172,959	165,403	159,888	72,125
Non-North American	228,385	270,761	295,561	255,725	231,926	216,239	181,796	159,687	163,152	116,616
Real Estate	113,600	111,891	102,799	85,713	55,793	52,613	50,202	49,755	44,535	42,201
Private Income Pool	35,654	23,681	16,024	6,846	3,875	493	—	—	—	—
Timberland Pool	7,627	7,602	5,339	5,536	—	—	—	—	—	—
Global Private Equities	21,613	8,417	—	—	—	—	—	—	—	—
Total Investments	1,199,702	1,475,924	1,464,816	1,288,233	1,154,290	1,059,607	942,850	1,010,672	1,042,371	975,205
Contributions and other receivables	3,374	2,801	2,953	2,782	2,379	2,400	2,051	1,792	1,512	1,304
Liabilities	(72)	(189)	(509)	(25)	(17)	(175)	(68)	(8)	(65)	(66)
Net Assets available for benefits	1,203,004	1,478,536	1,467,260	1,290,990	1,156,652	1,061,832	944,833	1,012,456	1,043,818	976,443
Actuarial value of accrued benefits	1,632,970	1,557,187	1,433,986	1,358,333	1,365,005	1,289,059	1,210,678	1,106,172	1,041,763	893,891
Surplus (Deficiency)	(429,966)	(78,651)	33,274	(67,343)	(208,353)	(227,227)	(265,845)	(93,716)	2,055	82,552
Funded Ratio (%)	74	95	102	95	85	82	78	92	100	109

* As of January 1, 2006, all service years to the end of 2000 receive COLA.

continued on next page.

10-year plan summary (continued) (unaudited)

For the year ended december 31, 2008

(\$ thousands)	2008	2007	2006*	2005	2004	2003	2002	2001	2000	1999
Performance (%)										
Long-term goal	6.50	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50
Rate of return — nominal	(17.70)	1.90	14.60	12.10	9.50	13.00	(5.90)	(2.60)	7.40	16.50
Benchmark	(14.20)	1.10	13.80	10.60	9.40	12.50	(6.90)	(3.40)	6.10	15.10
Consumer Price Index (Canada)	1.20	2.40	1.60	2.20	2.10	2.00	3.90	0.70	3.20	2.50
Real rate of return	(18.90)	(0.50)	13.00	9.90	7.40	11.00	(9.80)	(3.30)	4.20	14.00
Interest Rates (%)										
Bank of Canada	1.50	4.25	4.25	3.25	2.75	3.00	3.00	2.50	6.00	5.00
US Federal Reserve	0.25	4.25	5.25	4.25	2.25	1.00	0.75	1.25	6.50	5.50
Market Indices (%)										
S&P/TSX (\$Cdn)	(33.00)	9.83	17.26	24.13	14.48	26.75	(12.45)	(12.57)	7.41	31.70
S&P 500 (\$Cdn)**	(21.60)	(10.57)	15.28	1.63	3.26	5.29	(22.89)	(6.35)	(5.79)	14.20
MSCI EAFE (\$Cdn)	(29.80)	(5.74)	26.28	9.98	11.98	13.39	(16.82)	(16.50)	(11.19)	19.97
DEX Universe Bond Index***	6.40	3.68	4.06	6.46	7.10	6.69	8.73	8.08	10.25	(1.14)
Participants										
Active Members	3,693	3,427	3,389	3,347	3,195	3,064	3,080	2,856	2,729	2,708
Deferred Members	106	111	92	75	60	56	57	35	42	49
Pensioners	2,037	1,949	1,805	1,647	1,545	1,459	1,365	1,287	1,207	1,143
Total	5,836	5,487	5,286	5,069	4,800	4,579	4,502	4,178	3,978	3,900
Average age of active members (years)	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.1	38.8
Average age of pensioners (years)	60.8	60.8	60.8	60.8	60.8	60.8	60.1	60.1	59.7	58.8
Average annual pension amount	\$36,132	\$34,920	\$33,588	\$33,132	\$31,101	\$31,101	\$31,309	\$31,309	\$30,548	\$30,523
Current Contribution Rates (%)										
Employees	8.51	8.51	8.51	8.51	8.51	8.51	7.20	7.20	7.20	7.20
Employers	9.61	9.61	9.61	9.61	9.61	9.61	8.30	8.30	8.30	8.30
Unfunded liability — Pre 1992										
Province of Alberta	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Employer and Employee	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Indexing — Employer and Employee										
Employee	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Annual COLA pension adjustment*	2.94	2.16	1.20	0.78	3.42	1.02	1.98	1.98	1.32	0.66

* As of January 1, 2006, all service years to the end of 2000 receive COLA.

** Until 2005, the index used was the S&P 500.

*** Scotia Capital Fixed Income Indices changed their name to DEX Fixed Income Indices effective October 22, 2007.

2009 directory

employee nominees

Denis Jubinville (Chair), Edmonton Police Association
Ron Ternes, Calgary Police Association
Dwayne Smith, Lethbridge Regional Police Association

employer nominees

Roger Rosychuk, City of Edmonton
Garth Sherwin (Vice-Chair), City of Lethbridge
David Watson, City of Calgary

crown nominee

Aaron Brown

plan board manager

Liz Doughty, Alberta Pensions Administration Corporation

plan administrator

Alberta Pensions Administration Corporation

fund management

Alberta Investment Management Corporation

investment consultant

Hewitt Associates

actuary

Hewitt Associates

auditor

Auditor General of Alberta

contact information

special forces pension plan

3rd Floor Park Plaza
10611-98 Avenue
Edmonton, AB T5K 2P7

Phone: 780-427-5101
1-800-358-0840 (toll-free in Canada)

Fax: 780-421-1652

E-mail: SFP Board: sfpp.bd@gov.ab.ca
SFPP Administration: sfpp.admin@gov.ab.ca

Website: www.sfpp.ca

SFPP employers

Seven employers participate in the SFPP. They are the Police Services of:



The City of Calgary



The City of Camrose



The City of Edmonton



The Town of Lacombe



The City of Lethbridge



The City of Medicine Hat



The Town of Taber